Education: The next big opportunity

Imminent reforms in the education sector imply manifold growth and new opportunities for companies involved in this fast-changing field, say **K Raman** (practice head, infocomm, media and education) and **Kaustav Ganguli** of Tata Strategic Management Group

Change is imminent in the education sector. The dynamics of an economy on a high growth curve will force changes across all sectors of education — schools, colleges and the informal segment. Moreover, Indian consumers, who will spend more on education, will seek such changes to meet their expectations.

These changes imply an increased opportunity for the private sector. Depending on the company's strategic objectives, capabilities and risk profile, it can play successful roles in one or more of these segments and create social as well as enterprise value in the fast-transforming Indian education sector.

The estimated spend on education by Indian consumers in FY08 was Rs2,500 billion and is expected to rise to Rs6,000 billion by 2025. With the government spending 3.7 per cent of the GDP (Rs1,500 billion in FY07) on education, this sector is amongst the largest in India.

The education life cycle consists of five segments: pre-school, kindergarten to Class XII (K12), higher education (graduation and post graduation), vocational / career training and corporate training. There are various types of education providers with different objectives as shown in Table 1. About 90 per cent of consumer spend is on the three sectors of K12, college and career / vocational training. Each of these segments is expected to undergo significant structural changes, throwing up new opportunities for the private sector.

Table 1: Education providers

Sector	Type	Objective
School	Private	Business
College	PPP	Business / social
Training	Private-CSR	Social
	Public	Social

School education

Consumer spend on formal school education was estimated to be Rs1,000 billion in 2008 with an expected growth rate of 14 per cent per annum till 2012. Government-aided schools cater to about 70 per cent of students and the rest are enrolled in schools run by various private trusts. This segment is governed by a regulation that allows only not-for-profit trusts to run schools. Is there a sustainable role for the private sector considering that profit-making from education is still not looked upon favourably?

International experience points to two potential roles for private players. One is a direct, independent role of operating institutions and the other is a collaborative role of running institutions in a public-private partnership (PPP) mode.

In the direct independent role, the private sector player would set up the physical infrastructure, operate the school and invest in its brand building. The sheer size of such activity would limit the ability to scale up this model beyond a few institutes. Rampant regulatory uncertainties in this segment coupled with the sheer size of the activity renders this model unfavourable.

A collaborative role focuses on incentivising the private sector to utilise existing school infrastructure. Harnessing the efficiency of the private sector to improve delivery of education in government schools has found favour with the Ministry of Human Resources also. Though this approach addresses the issue of low scalability of the direct participation model, it still needs to be subsidised by the government to ensure viability.

The viability gap funding in infrastructure projects and the universal service obligation fund in telecom exemplify a vital point. In sectors where there is a public funding shortfall and where the expected revenues from customers fall short of the costs of providing the service, private players can still work towards an economically feasible model. The government or a central fund would need to finance the deficit between total costs and expected revenues for the most competitive player.

Currently, there are nearly 100,000 government schools in urban areas and 900,000 in rural areas. The government is targeting the creation of 2,500 schools under the PPP mode. However, a clear policy direction on this model is still to evolve. A large-scale partnership by the authorities with private sector companies will create a tremendous business and social impact.

College education

The total consumer spend on college education is about Rs400 billion. There are nearly 22,000 institutes of higher learning, 25 per cent of which are privately owned and funded. Limited restriction in this segment has attracted private participation in the form of private colleges and universities, especially in professional and post graduate management education. However, setting up of large scale institutions is a capital-intensive activity. Also, an institute needs to establish its brand before opening multiple campuses.

There are two initiatives that could transform the role of private sector players. One is a proposal for companies to take over ITI institutions to meet skilled labour requirements of various engineering, manufacturing and infrastructure companies. There are 5,500 institutes with nearly 750,000 seats. It is estimated that the skilled labour requirement in the year 2010 will be nearly 400,000 and could grow to 550,000 by 2015. Most of such institutes currently are languishing with outdated infrastructure and facilities. Upgrading these facilities can provide the industry with skilled manpower. While the revenue-earning potential would be low, this can be a viable business opportunity for companies requiring a large set of skilled labour since it cuts recruitment and training costs.

Secondly, the government is planning to allow foreign universities to set up campuses in India. This presents an opportunity to create partnerships to address the higher education market. However, these universities are expected to be premium-priced though the overall cost of such foreign university education in India would be lower.

Career and vocational training

This segment is largely unregulated and has active private sector participation. Training in IT, animation and multimedia, English language skills, aviation, etc have seen significant private sector participation. The number of educated entry-level job seekers in India was estimated to be 5.4 million in FY09. According to a Teamlease study, 43 per cent of these have skill levels appropriate for entry-level recruitment and the rest require skill repair to enhance employability. The Indian career training market was approximately Rs60,000 million in FY09. This market size could grow to Rs116,000 million by FY14, assuming a modest GDP growth rate of 7 per cent per annum till 2015.

As the economy grows, training needs for sectors like retail, hospitality, real estate, etc is expected to increase. The government initiative on vocational skill training is expected to train one million people on various skills over the next five years. The government has earmarked Rs1 billion per year till 2012 to be spent on this initiative through private sector participation.

There is a wide gamut of product and service suppliers in the education sector (Table 2) and changes in the sector will impact them. Our estimates indicate that e-learning adoption in schools in Maharashtra is expected to grow at 20 per cent per annum, leading to an opportunity of Rs7,000 million by 2014.

The future of education

Technology can play a significant role in transforming the delivery of education. As technology service providers, we have highlighted the opportunities available for a private service operator in the education sector.

Significant changes are expected in the education sector on account of policy initiatives. These changes will have different levels of impact on the various roles. Private sector players need to determine the role they would like to play and assess how this role could evolve in the future.

It is estimated that the Indian consumer spend on education would increase to nearly Rs6,000 billion by 2025. This presents a great opportunity for the private sector to create social impact as well as build a profitable business model. Companies desiring to be part of this transformation should act soon to capture the early mover's advantage, both in terms of favourably influencing regulations and building critical capabilities. ●

Table 2: Suppliers

Category	Examples
Products	• Books • Stationery • Uniform
Services	• Facility management • Faculty management • Technology: E-learning, learning management • Telecom • Special sevices — sports, craft